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Report Highlights:

CANADIAN CORN GROWERS TO FIGHT ALLEGED U.S. CORN SUBSIDIES * KATRINA NOT EXPECTED TO SHARPLY IMPACT U.S. CHICKEN EXPORTS TO CANADA * TRANS FAT TASK FORCE RECOGNIZES TRADE BARRIER POTENTIAL * LUMBER: WTO RULES AGAINST CANADA * CANFOR TO PULL OUT OF LUMBER LOBBY * CANADA SUES FOR DUTIES * CROP UPDATE

Includes PSD Changes: No
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This Week in Canadian Agriculture is a weekly review of Canadian agricultural industry developments of interest to the U.S. agricultural community. The issues summarized in this report cover a wide range of subject matter obtained from Canadian press reports, government press releases, and host country agricultural officials and representatives.

Disclaimer: Any press report summaries in this report are included to bring U.S. readership closer to the pulse of Canadian developments in agriculture. In no way do the views and opinions of these sources reflect USDA's, the U.S. Embassy's, or any other U.S. Government agency's point of view or official policy.

CANADIAN CORN PRODUCERS LAY OUT PLAN TO FIGHT ALLEGED U.S. SUBSIDIES: The Canadian Corn Producers, which is coalition of the Ontario Corn Producers' Association, La federation des producteurs de cultures commerciales du Quebec and the Manitoba Corn Growers' Association Inc., recently released the groups' commitment to a three-pronged approach to deal with U.S. grain corn imports. According to the release, the plan will:

- a) *Enable Canadian corn farmers to earn a fair return on their crops and,*
- b) *Level the playing field for Canadian corn farmers who for years now have suffered injury from low corn prices caused by billions of dollars of illegal U.S. subsidies and dumping.*

The three prongs of the plan are:

- 1. Byrd Amendment retaliation.
- 2. World Trade Organization (WTO) case
- 3. Anti-dumping and Countervailing Duties Complaint under *Special Import Measures Act* (SIMA)

Under the first prong of the Byrd Amendment retaliation, the Canadian Corn Producers have asked the Canadian government to add U.S. grain corn imports to the list of products targeted for retaliation by Canada against the U.S. for its refusal to repeal the Byrd Amendment. Under the second prong, a WTO case, the Canadian Corn Producers have requested that the Government of Canada commence WTO dispute settlement proceedings by requesting consultations with the U.S. regarding the U.S. grain corn subsidies as a result of the expiry of the "peace clause", and the recent WTO dispute settlement reports in the *Upland Cotton* case initiated by Brazil. According to the release, the Canadian Corn Producers justify initiating a WTO case because U.S. grain corn measures are specific subsidies, which are contrary to the WTO *Subsidies and Countervailing Measures Agreement* and the subsidies have conferred a benefit to U.S. grain corn producers and have caused adverse effects/serious prejudice to Canadian interests through displacement of Canadian grain corn production and sales, significant grain corn price undercutting, suppression or depression, and an unfair increase in the U.S. share of world grain corn sales. Under the third prong, an Anti-dumping and Countervailing Duties Complaint under SIMA, the Canadian Corn Producers have filed a complaint with the Canada Border Services Agency (CBSA), who will determine if there is justification to launch a formal investigation. The goal of the third prong is the application of duties to U.S. grain corn that is imported into Canada. *Post Comments:* *Canada is corn deficient and is reliant on U.S. corn imports to meet domestic demand. Ethanol production in the province of Ontario is corn-based. The ethanol industry is continuing to expand to meet demand and new regulations laid out by the provincial government. There are new plants looking to come on-line in 2006. Currently the industry utilizes roughly 25 million bushels of corn and the expectation is that the industry's corn requirement will increase exponentially in the next couple of years. The cattle, hog and poultry industries all utilize corn in their production. In addition, there are several other industry players who utilize corn in their production. The application of tariffs on U.S. corn imported into Canada will have very negative and far-reaching effect on Canadian agriculture and all those secondary industries that rely on corn in the production of their products. In addition, the benefit to the Canadian Corn Producers may only be short lived, as those industries like ethanol that utilize corn may be forced to either shut down or relocate into the U.S., where the corn is cheaper and in ample supply.*

HURRICANE KATRINA NOT EXPECTED TO SHARPLY IMPACT U.S. CHICKEN EXPORTS TO CANADA: According to the National Chicken Council, the state of Mississippi, which received the brunt of the storm, produces about 10 percent of U.S. broiler chicken and almost 80% of chicken slaughter plants in the state are not operating due to the effects of Katrina. Canada is the No. 2 market for U.S. broiler exports after Russia. In the January –June period of 2005, Mississippi accounted for only 2.5% of U.S. broiler chicken exports to Canada (Louisiana accounted for about 5%). Almost 60% of U.S.

exports of chicken to Canada in the first six months of 2005 originated from Alabama, Georgia, and Florida.

INTERIM REPORT OF THE TRANS FAT TASK FORCE RECOGNIZES TRADE BARRIER POTENTIAL OF ZERO DECLARATION ON LABELS:

In November 2004, a trans fat related motion was passed in the House of Commons calling for the establishment of a Task Force to provide the Minister of Health with recommendations and strategies to effectively eliminate or reduce processed trans fats in Canadian foods to the lowest level possible. In its interim report, the Task Force recognizes that the food supply chain in North America is highly integrated and said that any regulation must be developed in accordance with Canada's international trade obligations, i.e. science-based, transparent and predictable. The difference in the definition of "zero" trans fat is already seen as a trade barrier. According to the Task Force report, the threshold for declaring a serving of food as trans fat free is 0.2 g in Canada and 0.5 g in the United States. The Task Force is recommending that Canada pursue discussions with the U.S. through the NAFTA Technical Working Group on Food Labeling, Packaging and Standards to reach a solution to the differences in each other's Nutrition Facts tables (on food packages). Canada's new nutrition labeling regulations require that trans fat declarations be listed on the labels of most prepackaged foods by December 12, 2005 (December 12, 2007 for small manufacturers). The Task Force will continue to gather information in the coming months and a second public consultation is scheduled for fall 2005. The final report, which will contain recommendations for an appropriate regulatory framework and for the introduction and widespread use of alternatives to trans fats, is scheduled to be presented to the Minister of Health in late fall 2005.

WTO RULES AGAINST CANADA: In an interim ruling earlier this week, the World Trade Organization (WTO) supported a 2004 determination by the U.S. International Trade Commission (ITC), that Canadian lumber poses a threat of injury to the U.S. lumber industry and that the U.S. complied with international law when it implemented duties on Canadian softwood lumber exports. This ruling follows a recent NAFTA panel ruling that dismisses the ITC's claims that Canada's softwood exports are subsidized. Canadian officials announced their disappointment with the WTO ruling, but indicated that the government is sticking to its position that the NAFTA ruling supercedes the WTO and that they are taking the case to the U.S. Court of International Trade. Canada's International Trade Minister, Jim Peterson has stated that Canada's position has not changed as a result of the WTO ruling. The Minister indicated that there are no negotiations planned and that Canada intends to continue to push for enforcement of the binding NAFTA ruling. The Canadian government wants the U.S. to comply with the NAFTA ruling, rescind the tariffs and return the already collected duties. Prior to the WTO ruling, retaliation against the U.S. for failure to adhere to the NAFTA was being called for by some Canadian politicians and industry officials alike. The WTO ruling has silenced those calls. The final details of the WTO ruling will be released later this year. In the mean time, Canadian officials plan to appeal the WTO ruling.

CANFOR TO PULL OUT OF LUMBER LOBBY: Canada's largest lumber manufacturer has announced that it will be pulling out of the B.C. lumber lobby. According to The Vancouver Sun, Canfor has stated that it is up to both Ottawa and Washington to reconfirm their commitment to a rules-based trading system, live up to their legal commitments under NAFTA and resolve the softwood dispute, which has become political. The lumber giant will continue to remain active in the two lawsuits it has a stake in winning: the appeal to enforce the NAFTA ruling and a second to overturn the Byrd Amendment, but it will speak with its own voice on the softwood lumber issue. The company has indicated that the B.C. Lumber Trade Council has served its purpose for which it was created. Canfor accounts for more than 30 percent of the B.C. lumber lobby group's funding.

CANADA SUES FOR DUTIES: The Ontario Forest Industries Association, the Ontario Lumber Manufacturers Association, and the Free Trade Lumber Council, joined with the Canadian Lumber Trade Alliance, the Canadian Wheat Board, Norsk Hydro Canada, Inc., and the Government of Canada in launching a lawsuit demanding that the U.S. return duties collected and possibly distributed to American companies under the Byrd Amendment. The lawsuit was filed in the U.S. International Trade Court. The suit claims that the Byrd Amendment does not legally apply to Canadian industries because of NAFTA. According to the press release by the Free Trade Lumber Council, a specific provision in NAFTA forbade the U.S. from changing its trade laws to Canada's detriment unless Canada were named in any amendment and Canada was warned in advance. Canada was not named or warned when the Byrd Amendment was passed, therefore according to U.S. law; the Byrd Amendment cannot apply to

Canadian goods. The Canadian government and the various affected industries are expecting a decision from the court by the end of this year.

CROP UPDATE: According to Saskatchewan's provincial department of Agriculture, harvest has been slowed due to additional rain over the past week. In addition, the additional rain has impacted crop quality. The north and west-central areas of the grainbelt received the most rain, with amounts of over 6 inches reported. Eight percent of the 2005 crop has been combined and 21 percent has been swathed or is ready to be straight combined. This is behind the five-year average of 25 percent combined and 21 percent swathed or ready to straight combine. Winter wheat is 62 percent combined, spring wheat is 2 percent combined, durum is 3 percent combined and barley is 7 percent combined. Forty-four percent of canola is in swath or ready to be straight combined. Despite causing flooding and impacting crop quality, the rain improved topsoil moisture conditions in some areas. Insects, rain and wind were the main sources of crop damage. There were also reports of staining, bleaching and sprouting in some crops throughout the province. The heavy rainfall also impacted crops and harvest in Alberta. Alberta is in need of some heat to help finish crops, especially in the central and northern regions. According to Manitoba's provincial department of Agriculture, harvest continues, with quality and yields remaining mostly poor. Some areas have begun seeding winter wheat. The latest reports indicate that roughly 1.5 million acres of land, which is about 1/3 of all arable land, was either unseeded or ended up with lost crops as a result of the excessive rainfall Manitoba received in June and July. As a result, spring wheat production is expected to fall 33.1% this year from last year. According to Ontario's provincial department of Agriculture, the corn crop is moving through the grain filling period under good conditions in most areas and is 1 to 1.5 weeks ahead of normal in development. The Ontario soybean crop is maturing quickly with many fields beginning to senesce. Most regions received enough rainfall over the past 3-4 weeks to allow for good pod set and seed fill. The crop is 7-14 days ahead of normal development. Soybean aphid populations have increased rapidly over the past month, requiring treatment.

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